speaking for the wine and spirit trade

Briefing: The Wine Easement and why it must be made permanent

1. Introduction - New Duty Regime:

The Government's review of the inherited EU alcohol excise duty system was launched in 2020, with the final consultation response and proposal issued in September 2022. **In this response, the Government stated that *'we believe that the system we are confirming today is fairer, simpler to use, and better supports businesses to thrive.'* For wine and spirits, the new system comprehensively fails against all three aims.**

The previous (EU) rules set out how excise duty should be applied (beer and spirits by strength, wine and other fermented products by volume). While up to EU member States to set their own rates the EU framework rules also set out minimum rates (positive minima for beer and spirits, zero for wine). The new system, which came into effect on 1 August 2023, levies excise duty on all alcoholic products according to strength - but at different rates, reinforcing pre-existing market distortions. Taxing alcohol by strength and with lower rates for lower ABVs, while seemingly simple on paper, takes no account of how the products are consumed (in what quantities and whether diluted), complexifies administration for wine businesses, and penalises wines from warmer climates.

2. What is the 'wine easement'?

The temporary easement, due to end on 1 February 2025, was introduced alongside the new duty system on 1st August 2023 and levies duty on all wines be ween 11.5% and 14.5% ABV, as if they were 12.5% ABV (£2.67/bottle). 85% of all wine on the UK market falls into this ABV range.

The easement recognises that wine is different to other categories of alcoholic drink:

- Wine cannot be made to a pre-determined strength. Alcoholic strength of a wine is determined by climate. Warmer climate wines are usually stronger than cool climate wines (Sunshine = sugar = alcohol).
- Wine is subject to strict production rules (unlike beer or cider) – there is very little winemakers can do to lower the alcohol content.
- Market Scale: There are 100,000 different wines (SKUs or stock-keeping units) on the UK market (compared with c.1K cider SKUs). Different vintages can and do vary in strength – and so do some of the same wines in the same year.

3. What abolishing the easement means:

- **Replacing one amount payable (£2.67 per bottle) with up to 30 possible different payable amounts for wines in the 11.5% - 14.5% ABV range – ranging from £2.45 - £3.09 per bottle**

Wine and Spirit Trade Association. Registered address: Lynton House, 7-12 Tavistock Square, London WC1H 9LT
Correspondence address: International Wine & Spirit Centre, 39-45 Bermondsey Street, London SE1 3XF
Tel: +44 (0) 207 089 3877 / Email: info@wsta.co.uk
Registered Number: 410660 England Limited by Guarantee / VAT Number: GB 243 8280 60

- Significant and going costs to implement the tax-by-ABV system in full without the easement. **Not a one-off expenditure linked to implementation, as HMT has claimed.**

- Significant disruption and complexity: **The ABV of every single of c.100k SKUs on the market (stock keeping units or individual product lines) will have to be recorded for duty purposes.** Many will change every year; some will change in-year.

4. **The case for why the easement must be made permanent:**

Not a Brexit-inspired Benefit: While it is true that the new system was enabled by Brexit, it is – for wine – significantly more complex and is of no benefit to either wine businesses or wine consumers. The new tax-by-strength approach is much harder to apply for UK wine businesses than the previous (volume-based) regime.

Damaging the UK as a leading global wine market: The UK is the 2nd largest importer of wine (by volume and value) and 99% of all wine on the UK market is imported. **Ending the easement will bring added cost, complexity and red tape that will make the UK a less attractive market** for suppliers and damage our status as a global hub for the wine trade.

Duty liability and the supply chain: **Currently, with one rate (£2.67) for the entire easement range, duty liability is known in advance for c.85% of all wines on the UK market.** SKUs (stock-keeping units) can contain the same wine - but of different vintage years – and differing ABVs. This means that **after 1st Feb 2025, a different duty payment will be required for every wine of a differing ABV** – even for wines which fall under the same SKU. This will confuse customers who expect price consistency and to lead to recurrent cost increases for business and make supply chain contracts harder to manage.

The unique agricultural status of wine and its impact on excise duty payments: The ABV of a wine cannot be pre-determined, dictated or maintained at the same level year after year. The same wine from the same vineyard can vary by c.2% each vintage. Importers transporting bottled wine into the UK market will likely not know final ABV either at the point that a wine is purchased or when sales to the wider supply chain are made (on-trade).

The effect on SMEs: Ending the easement will also be SME-disproportionate: There are c.1,000 independent wine merchants in the UK – on which the loss of the easement would weigh most heavily (cost v turnover; additional staff; profitability). The vast majority of wine merchants in the UK are SMEs whose specialist portfolios are a key USP. The new duty system incentivises businesses to keep a much smaller range of SKUs and stock wines of similar ABVs to simplify red tape.

Why wouldn't the Treasury do it? **The solution for Govt is simple: Make the easement permanent and retain the status quo. It would remove all of the unintended consequences already explained. It would NOT undermine the Govt's strength-based approach and WSTA modelling shows that it would have negligible impact on Treasury revenue** – increases to duty last August have already reduced year-on-year overall alcohol duty receipts by c. £450 million between September 2023 and

March 2024. Making permanent the easement would be warmly welcomed by UK wine businesses big and small – but especially small.

Background on the UK wine and spirit sector:

- The UK is a major global hub for wine and spirits. Second largest importer of wine (by both volume and value) and largest exporter of spirits.

- In 2022 the UK wine and spirits industry supported over 390,000 jobs in the UK, accounted for £69 billion in economic activity while contributing nearly £22 billion in Gross Value Added.

- Excise duty revenue received from wine and spirits releases was worth £8.6 billion and accounted for 69% of all alcohol duties collected in 2023.

Wine and Spirit Trade Association. Registered address: Lynton House, 7-12 Tavistock Square, London WC1H 9LT
Correspondence address: International Wine & Spirit Centre, 39-45 Bermondsey Street, London SE1 3XF
Tel: +44 (0) 207 089 3877 / Email: info@wsta.co.uk
Registered Number: 410660 England Limited by Guarantee / VAT Number: GB 243 8280 60